Lloyds Bank Limited

MONTHLY REVIEW

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⁂ It is proposed to publish from time to time in Lloyds Bank Monthly Review signed articles by economists of standing, affording opportunities to exponents of different theories to state their case. The Bank is not necessarily in agreement with the views expressed in such signed articles.

Reaction of Taxation upon Employment

By W. A. Appleton, C.B.E.

THAT taxes do react upon trade and employment is certain. What most of us want to know is the nature and effect of this reaction. Is it reciprocal, or retrogressive; beneficial or harmful; does it advance or retard the activities of the producer, or the opportunities of the workman; does it increase or diminish wealth and welfare; or, may it be assumed that the effects of taxation upon production and employment are negligible; that any evil arising from excessive appropriations of personal wealth, will be cancelled out by advantages resulting from bureaucratic redistributions and diffused spending?

Answers to these questions will vary according to view points, because men, in the main, reason emotionally rather than logically. Their judgments are influenced more by environments and associations, by desires and suggestions, than by conscious and personal analysis of facts and experiences. Consequently, they may be expected to disagree widely over the nature and the extent of the reaction of taxation upon employment.

That there is disagreement is demonstrated by the controversies which rage from Westminster to Glasgow Green, and, unfortunately, the decisions of Parliament suggest that those who hold that expenditures cancel out exactions, have secured a free hand, while in every Department of State which can camouflage its ambitions by the term "social service," spending appears to be a virtue to be encouraged.

The task of arresting attention, awakening reason, and compelling consideration of the inevitable effects upon employment of these spendings, is appallingly difficult. It involves,

in addition to attacks upon individual selfishnesses and thriftlessness, attacks upon those collective interests which thrive upon creations and extensions of schemes for doing for mankind what mankind could more economically and happily do for itself. From these groups emanate the most dangerous economic heresies, and from these will come the bitterest opposition to all attempts to restore a sound and general economic perspective. To meet and combat their subversions and perversions of economic law and historical experience, will require the wit, skill, and work of many men; and the work will need to be frequently repeated, because the strength of these groups lies as much in capacity to ignore and suppress, as in blatant declaration.

No extended explanation of economic terms is possible in the present article; that task is left to the academic economists. Yet, it may be well to say that by tax is meant an exaction, levied by legalised force, upon the wealth of individuals; that capital represents that part of wealth which is set aside for productive purposes; and that employment means intelligently directed effort, aiming directly or indirectly, at maintaining industrial life, and restoring any capital which effort consumes, plus the additional capital required for the encouragement and sustenance of future effort. If at any time in the experience of a people, wealth is so consumed that capital becomes insufficient to meet the wage demands of labour and to finance productive expansion, unemployment seems to be inevitable.

Obviously, the extent of any reaction of taxation upon employment will depend upon a number of factors. These will include the total exacted, the manner and incidence of the exaction, the extent and availability of the material resources of the country taxed, and the uses to which the exacted wealth is applied. If the total wealth exacted is so large as seriously to diminish stocks, or if the exaction appears to be tyrannously or unequally imposed, or if it accentuates any lack of balance between material resources and mass requirements, or if the product of exaction is unwisely redistributed, then the reaction is not reciprocal, but retrogressive, and must be prejudicial to employment.

It is advisable, when trying to appreciate the burden and effects of taxation, and the extent of its reaction upon unemployment, to compare national taxes with national incomes. Imposing figures concerning the latter, if published without careful

explanation, will certainly invite dangerous deduction. Indeed, many industrial and political errors have resulted from figures of profits and incomes which have been accepted as net when they were actually gross, and subject to all kinds of deductions. The totals for taxes can be easily ascertained; for national income, they are estimated—with the estimates varying according to the methods adopted. One recent estimate places the national income of Great Britain at £4,200 millions; another at £3,750 millions. In both cases the figures are based mainly upon ascertained data, but admittedly some are based upon more or less justifiable assumptions. These estimated totals represent, at least approximately, an annual income of £83 to £95 per head of a population of 45,000,000, and it can be, and is, argued that out of this income, and at the present price of commodities, taxation of £16 per head, even when local rates were added, should not be a paralysing exaction. The validity of the contention would be admitted if the incomes stated were net, and not affected by duplication.

Some students of reports on national income are, however, assailed by doubts concerning the actuality of this income, and the extent of its *external* exchange value. They discern in the returns suggestions of duplication, and feel that to the extent that duplication exists, the totals will mislead both the man in the street and the orator on the platform, and lead both to demand expenditures which, by increasing taxation, will reduce the capital upon which employment depends; will lead them also to ignore or undervalue this problem of external purchasing power, and to forget that Great Britain, lacking adequate internal supplies of raw materials, as well as foods, must always think of external purchasing power.

The net output of industry and agriculture, according to the 1924 census of production was £1,871 millions. The difference between this amount and the £4,200 millions is made up by various items, amongst which are distribution and dealing, £1,128 millions; customs and excise, £227 millions; houses and services, £650 millions; excess of imports, £338 millions. It is impossible to avoid the fear that in these, and in the balance of items, there is duplication; or that where inferences from the huge total are carelessly drawn, as they sometimes are in the world of politics, the figures will obscure the existing ratio of taxes to incomes, mask the extent of the tax burden, and encourage demands for wider spending.

Comparing the net output of industry and agriculture with the sums exacted, through taxation and rates, may not be scientifically right or exactly fair, but the comparison should be instructive and, if more generally made, might induce newer and saner attitudes towards taxation. If this course is adopted, and to the £800 millions demanded by the Chancellor of the Exchequer is added the £180 millions collected in local rates, the ratio of taxes to income will look much more serious, and what appear to be disposable surpluses, will look much less alluring. If this method is followed, even experimentally, the percentage costs of services rendered or contemplated will, of necessity, appear proportionately higher than when calculated, as they most frequently are, on the higher computations of national income.

At first sight, it may seem extravagant to suggest that in Great Britain, taxation is tyrannously imposed or collected, because all taxation is imposed by Parliament, or by Parliamentary authority; and Parliament is supposed to represent the will of the people. Tyranny, however, can exist apart from force of arms, and any parliamentary party basing its schemes of taxation upon the theory that accumulations of wealth are immoral, and that arbitrary redistributions are expressions of social justice, may act with that rigour and severity which, because it steals from effort and destroys initiative, may truly be described as tyrannous. Parliaments, too, most frequently represent the electoral rather than the intellectual powers of peoples, and where the punitive theory of taxation finds ready expounders, and the desire to continue in Parliament is strong, the value of taxation to the people who are imposing it, rather than its effect upon the people who are suffering under it, is the paramount consideration.

The reaction of taxation upon employment will be less prejudicial in agricultural countries than in those which are highly industrialised; less in countries where, material resources and human requirements approximating, export trade is a matter of minor importance. Amongst people possessing land in abundance, and who live mainly by husbandry, experiments may be tried and risks incurred without abiding disaster necessarily supervening. But, where the contrary obtains, where internal resources are less than internal requirements, where such essentials to production and trade as cotton, wool, leather, wood and various metals, together with major supplies of food, have to be imported, any taxation which causes, or increases, deficiencies in capital—capital being wealth set aside for production—

threatens misery, and dissolution of the factors and machinery upon which employment depends. In such cases and countries, the prejudicial reaction of taxation upon employment is certain; and, while palliation of the resulting evils may be possible, palliation, unless attempted with great wisdom and extreme care, tends to perpetuate and accentuate the evil it would salve.

There is an idea, prevalent in Parliament and amongst writers and speakers, as well as amongst the masses, that capital abstracted by taxation and distributed in the palliation of the evils of unemployment, benefits production. Only in part, sometimes in very small part, is this true. Much of the capital so distributed is, of necessity, expended upon the purchase of imported foodstuffs or in the production of things which, though useful, may be superfluous; some is spent on amusements; and some may be saved, but for consumptive rather than reproductive purposes. And, wherever, capital consumed is unreplaced, employment will be prejudiced.

This becomes obvious when it is understood that production and trade are limited by the amount of capital available; and that the higher the cost of labour, of commodities, of services, or of taxes, the greater will be the capital and effort required to finance and sustain production. It is notorious that if for any cause the direct or indirect costs of production rise, accumulations of capital must increase proportionately, or production and trade is checked and unemployment follows.

Those who are desirous of acting wisely in this profoundly important matter will do well, after deciding what capital really means, to give consideration to its uses and misuses. They will find that it may be sunk, applied or extinguished. To sink capital is not necessarily to lose it, though loss not infrequently follows. It may be sunk in railways, roads, ships, buildings, machinery, and other things, and whether it is lost in whole or in part, depends upon the wisdom of those who operate it, and upon accidents or circumstances over which neither the lenders nor the operators have control. It is not to be expected that capital sunk in this way will be unchangeably and immediately recoverable, but it is expected that it will produce returns sufficient to recompense the lender and to effect its ultimate replacement. If, however, the railways become obsolete, or the roads are in excess of requirements, or the buildings are destroyed, a portion at least, sometimes a large portion, of this capital is entirely lost or extinguished.

Capital may be applied in various ways. It is applied to the maintenance of the workman and his family while he is engaged in producing commodities. This, indeed, may be regarded as the most important function of capital, for no man lives on his current production; he must always draw upon his own or his predecessors' savings for sustenance, and it should not be difficult for him to realise that the amount saved influences the amount he may consume and the extent and steadiness of his employment.

In addition to being sunk and applied, capital may be extinguished. The principal extinguishing factors are war, earthquake, personal extravagance, and distributions which, while maintaining life, exact no equivalent replacement. During and since the war, Great Britain has extinguished capital expressed in terms of thousands of millions sterling. She has, in addition, experienced considerable rises in the prices of commodities and services. Her economic candle has been burned at both ends, and to-day she is aghast at the sequential spectacle of more than two millions of her people unemployed or sick; consuming without producing.

For the moment, the legislators and governors of Great Britain, either because they lack knowledge or courage, or both, propose nothing better than additional extinguishing. This policy, which finds expression in the offer to local authorities of 90 per cent of the capital sunk in roads and public works, may result in the enlargement of the evil. It will accentuate rather than remedy because it will immobilise capital which could be better used in the cotton, wool, iron, or other export trades. And, because these panic expenditures, at least in part, are unremunerative, interest charges and sinking fund must needs be raised by borrowings, by additional taxation or by increased withdrawals, in the shape of death duties, from capital account. In any of these cases, the stocks available for the maintenance of labour and the expansion of employment tends to diminish, while the ratio of those overhead charges which are outside the control of industry, is always tending to increase.

This is not untested theory. Each day's experience demonstrates the accuracy of the conclusion that taxation, such as is imposed on Great Britain, reacts to the prejudice of industry and employment, while the increased taxation adumbrated in various political proposals, must force existing strains to breaking

point. Unpleasant as the word economy is, it must be practised if financial catastrophe and deplorable destitution is to be avoided.

Taxation has its recognised uses, and amongst these may be wisely administered redistributions of wealth. When taxation extinguishes capital, limits industrial production, disheartens enterprise, and exploits credit to the point of collapse, it is time, particularly in the interests of the industrial producer, to call halt, and to make the call with the peremptoriness of the drill sergeant.

Floating Debt Policy

THE coincidence this year of a substantial reduction in the number of outstanding Treasury Bills and a sustained fall in discount rates has provoked comments in Parliament and the press to the effect that the Government is starving the market of bills and is so bringing about a further monetary deflation, to the detriment of trade and industry. Some go so far as to urge the issue of additional bills. In the present depressed condition of our commerce, it is necessary to examine every possible cause, however remote it may appear, and so these allegations, though apparently of a highly technical and specialised character, in reality concern the country at large.

Treasury bills form the major portion of the floating debt of the country. Now the original purpose of the floating debt was to provide the Government with funds needed temporarily each year, simply because whereas the national expenditure is spread evenly over the whole year, the bulk of the national revenue only comes in between January and April. During the war, however, the floating debt was increased substantially beyond the amount required for this purpose, and even though drastic reductions were made in post-war years, it has lately fluctuated between 500 and 800 millions as against 20 millions or so before the war, and, more pertinently, as against a total revenue and expenditure annual turnover of the order of 800 millions. So the first point to bear in mind is that even to-day the floating debt is swollen far beyond the size required by its original purpose.

One important effect of the big war and post-war increase in the Treasury bill issue is that of recent years bankers and other holders of and dealers in bills of exchange have found that Treasury bills have come to form their main stock-in-trade, and

this development has been accentuated by the decline in the number of commercial bills, due partly to changes in business methods, and partly to the fall in commodity prices and recession in trade. Moreover, there exists to-day, which did not exist before the war, a fiduciary note issue of £260,000,000, and since the amalgamation of the note issues in 1928, these bank notes are backed largely by Treasury bills. The result is that any change in the number of Treasury bills outstanding reacts immediately upon the total supply of bills available for the banks and the money market, and the nearer the total supply falls to the amount of Treasury bills required to support the note issue, the more far-reaching become the effects of further changes in the amount.

Now the first thing to understand is that the price of bills depends on the supply of bills on the one hand and the supply of short money seeking employment on the other hand. Also, the price of bills is expressed in their rate of discount, a low discount rate betokening a high price, and *vice versa*. The next question is what is a low and what is a high discount rate? The answer is that inasmuch as Bank rate represents the highest limit to which discount rates, at least for short-dated bills of the highest grade, can rise, discount rates are high when they are right up to Bank rate, and low when they stand at a substantial margin below Bank rate. A normal margin is approximately ½ per cent.

Finally the margin between Bank rate and discount rates reacts upon Bank of England policy. When the margin is small, it means that money is stringent and that the Treasury and other sellers of bills have difficulty in disposing of them. To ease the position, the Bank has two alternatives. One is to buy bills itself, in the hope that its own demands will raise the price of bills, which is equivalent to forcing down discount rates, and the other is to raise Bank rate. Conversely, when the margin is excessive, so that discount rates bear no relation to Bank rate and the Bank has thereby lost control of the money market, the Bank must either sell some of its bills in the hope of raising discount rates, or else lower Bank rate.

Now it was generally believed last year that it was events, such as the Wall Street boom and the French gold withdrawals, over which the Bank of England and the City had no direct control, that forced the Bank to raise its rate, and the fact that an increase during this critical quarter of the year of £35,000,000 in the Treasury bill issue contributed towards forcing discount

rates right up to Bank rate, and so towards forcing up Bank rate itself attracted little notice. Last spring, however, when in three months (December 31st to March 31st) the Treasury bill issue was reduced by £191,000,000, this reduction was immediately seized upon as having forced the Bank not only to reduce Bank rate from 5 to 3½ per cent at a time when the condition of the foreign exchanges hardly warranted it, but also as having forced the Bank to sell bills, so that by making bills cheaper it would prevent a further fall in discount rates. Now, as explained on a subsequent page, when the Bank sells Treasury bills or any other of its assets, it automatically contracts the nation's supply of credit. Hence the Treasury's policy of retiring £191,000,000 of its outstanding bills is alleged to have had the effect of starving industry of credit, just at the time when it needed plentiful as well as cheap credit.

A final count in the indictment is that inasmuch as these bills were retired in part out of the proceeds of the 5 per cent and 4½ per cent Conversion Loan issues of last winter, the Government in effect has replaced Treasury bills which to-day cost it between 2 and 2½ per cent with long term debt costing it practically 5 per cent. This charge, obviously, contains a serious confusion of thought, for the main argument is that it is just because the Government has reduced the Treasury bill issue that their present bills cost them only 2 to 2½ per cent. It may therefore be dismissed at once.

Reverting to the main charge of causing deflation, the evidence, though plausible, is incomplete. It is perfectly true that during the first quarter of this year, the margin between the Treasury bill discount rate and Bank rate widened from ⅜ per cent to the very big figure of 1⅜ per cent, but it is equally pertinent to point out that this quarter was a period when the normal demands of commerce and the stock exchange for short money were at an extremely low ebb. Moreover there is no definite evidence of deflation. Bankers' deposits at the Bank of England, which are a fairly accurate measurement of the size of the country's credit fund, were on April 2nd last no more than £4,400,000 below their level of the previous year, a decline which is insignificant when compared with the previous quarter's, and still more the previous year's reduction in Treasury bills.

But even if it were proved that last spring's retirement of Treasury bills had caused deflation, the Treasury ought not to be condemned upon the results of a single quarter. In judging

Treasury policy, it is necessary to take the long view, and the Treasury can make the cogent reply that the experience of August and September, 1929, when immediately before the rise in Bank rate to $6\frac{1}{2}$ per cent new Treasury bills had to be issued practically at Bank rate, proves that an expanded Treasury bill issue can be a source of danger. They can further reply that coincident with the seasonal increase of £25,000,000 in the Treasury bill during the April-June quarter of the current year, the margin between their discount rate and Bank rate narrowed to $\frac{7}{8}$ per cent, notwithstanding an influx of short money from New York. During the last few weeks the margin has shrunk still further—practically, in fact, to the "normal" $\frac{1}{2}$ per cent.

In these circumstances, there is a strong case in favour of letting the issue of Treasury bills run its normal course. Discount rates are low to-day mainly because bad trade, low commodity prices and idle stock exchanges have left short money without employment. It would be most undesirable for employment to be found for this money artificially by means of the issue of redundant Treasury bills. To mention no other possibility, it might be found that when trade revived, the money required to finance it was no longer there, because it had been locked up in Treasury bills. The consequences of such an eventuality, expressed as they inevitably would be in higher money rates, would be serious for the Treasury, for the money market and for trade.

Finance and Industry

(3) The Bank of England's Banking Department

IN the previous article in this series it was stated that Peel's Bank Act of 1844 divided the Bank of England into two parts, namely, the Issue Department and the Banking Department. The former, which is responsible solely for the issue of bank-notes, has already been described, and the purpose of the present article is to describe the latter.

The first point to emphasise is that the Banking Department is essentially a bank of deposit. Its liabilities consist partly of its capital and "rest," belonging to its proprietors; and partly of deposits, representing money lodged by its customers. Its assets consist partly of cash, consisting almost entirely of its own notes, which the reader will recall are legal tender money; and partly of securities, bills of exchange, and loans made to various people.

So far there is no difference between the Banking Department and any other bank, and in its early days the Bank authorities were inclined to regard themselves as merely *primus inter pares* in the banking world. The Bank of England, however, gradually came to occupy a special position of peculiar importance, though this change was unknown to or ignored by the Directors until Walter Bagehot and Viscount Goschen brought it home to them in their famous books "Lombard Street" and "The Theory of the Foreign Exchanges," published half-a-century ago. The vital distinctions between the Bank of England and other banks are, firstly, that the Bank of England has as its customers not the general public, but the British Government, other British banks, and a certain limited number of big municipalities, public authorities and financial and trading institutions; and, secondly, that, as is shown below, it conducts its business not primarily in the immediate interests of its shareholders or even of its principal customers, but with a view to the general economic needs of the country as a whole.

An apt description of the Bank of England is that it is a "bankers' bank." A substantial portion of its deposits consists of money lodged with it by other banks and regarded by them as part of their cash. When a joint stock bank has to decide how much credit it can allow to its customers, it is influenced not only by the amount of coin and bank-notes in its till, but by the size of its deposit at the Bank of England; and more important still, when a joint-stock bank cashes cheques for its customers over the counter, it replenishes its depleted store of bank-notes by drawing against its deposit at the Bank of England. All this means that the cash held in the Banking Department of the Bank of England is the basis, *inter alia*, of the deposits there of the other banks, which deposits in their turn are the basis of the ordinary current and deposit accounts of the general public. Thus the cash held in the Banking Department is the foundation stone of the whole banking and credit system of the United Kingdom. This means that those responsible for the conduct of the affairs of the Banking Department are in reality charged with the regulation of the entire credit system of the country, and that is why they have to watch national interests rather than those of the Bank's own shareholders and customers.

Another important function of the Bank of England is

that of acting as the Government's banker. This does not only mean that the Bank looks after the Government's money. The Bank is also responsible for the issue and management of the various Government stocks comprised in the National Debt, such as Consols, War Loan, Conversion Loan, etc. The Bank grants to the Government temporary loans from time to time, these being known as Ways and Means Advances. It also issues each week Treasury bills on behalf of the Government, and, finally, at all times a very close co-operation exists between the leading officials of the Bank and the Treasury. Unofficially, the Bank has a very important share in the management of the national finances, though, of course, on questions of policy the Government has the sole decision. The duty of exercising these functions of managing the note-issue of the country, of acting as the Government's banker, of acting as the bankers' bank, and of regulating the credit system of the United Kingdom make the Bank of England what is known to-day as a "Central Bank." The name is self-explanatory.

The detailed structure of the Banking Department may now be conveniently considered. Its balance-sheet, as published each week, is as follows, the week chosen being the same as that selected for the balance-sheet of the Issue Department, given in last month's Review and also reproduced below :—

BANK OF ENGLAND.

Return for Week ended Wednesday, May 28th, 1930.

ISSUE DEPARTMENT.

	£		£
Notes Issued—		Government Debt ..	11,015,100
In Circulation ..	356,131,548	Other Government Securities	232,894,876
In Banking Department	61,053,977	Other Securities	11,629,071
		Silver Coin	4,460,953
		Amount of Fiduciary Issue	260,000,000
		Gold Coin and Bullion ..	157,185,525
	£417,185,525		£417,185,525

BANKING DEPARTMENT.

	£		£
Proprietors' Capital ..	14,553,000	Government Securities ..	45,577,629
Rest	3,216,885	Other Securities—	
Public Deposits* ..	13,241,450	Discounts and Advances £6,805,493	
Other Deposits—		Securities 11,515,774	18,321,267
Bankers £58,963,730			
Other Accounts 35,906,848	94,870,578	Notes	61,053,977
		Gold and Silver Coin ..	931,174
7-Day and other Bills ..	2,134		
	£125,884,047		£125,884,047

* Including Exchequer, Savings Banks, Commissioners of National Debt and Dividend Accounts.

On the Liabilities side of the Banking Department are to be found :—

(A) *Proprietors' Capital.*—This represents the total sum subscribed by the proprietors of the Bank. The capital takes the form of stock, and is fully paid-up.

(B) *Rest.*—This represents the Bank's reserve fund and undivided profits. It is the property of the proprietors. The Dividends on the capital are paid out of the " Rest "

(C) *Public Deposits.*—Their nature is explained by the foot-note to the Return. They represent the money lodged with the Bank by the Exchequer and certain other Government departments.

(D) *Bankers' Deposits.*—These consist of the money lodged with the Bank of England by other *British* banks, and, as explained previously, regarded by them as part of their cash.

(E) *Other Accounts.*—These refer to deposits by other institutions and individuals. They include, for example, deposits by foreign banks, by home municipalities and big institutions—in short by all customers other than the British Government and British banks.

(F) *Seven-day and other Bills.*—These are short bills issued by the Bank. They are in reality a relic of the past, and are now only used for making certain revenue payments. The return shows them to be insignificant.

The Banking Department's Assets include :—

(A) *Government Securities.*—Contrary to a wide-spread belief, these do not consist only of the temporary over-draft granted by the Bank to the Government on occasions when revenue is slow in coming in, or the Treasury has some especial expenditure to meet, and which are known as " Ways and Means Advances." They also consist of the Bank's holdings of Consols, War Loan and other British Government stocks, and finally of its holdings of Treasury bills, provided that the Bank has acquired these bills *on its own initiative*, and not on that of the seller (or discounter) of the bills. This distinction is important.

(B) *Discounts and Advances.*—These represent first of all bills, both Treasury and commercial, discounted at the Bank on the initiative and at the request of their previous holders ;

and, secondly, of loans made by the Bank, in practice mainly to bill-brokers and never to other banks.

(C) *Other Securities*.—These consist of commercial bills and other securities bought by the Bank *on its own initiative*.

(D) *Notes*.—These consist of the Bank's own notes, and represent the major portion of the cash, or Reserve as it usually is called, held in the Banking Department. The Banking Department has no direct control over the size of this item, for it is nothing more than the difference between the total number of notes issued and the number in circulation. The number of notes issued depends upon the amount of gold held in the Issue Department, and the number in circulation upon the demands of other banks and of the general public.

(E) *Gold and Silver Coin*.—The Banking Department always has to keep a small quantity of till-money to meet the daily needs of its customers. This is also part of its Reserve.

Finally comes a figure, which although not part of the Banking Department's accounts, provides the key to its position and also to the policy of those responsible for its operations. This figure is a percentage, and is known as the "Proportion." It measures the ratio of the Banking Department's Reserve of coin and notes to its Outside Liabilities, consisting of its various Deposits and its seven-day bills. It thus corresponds to the cash ratio of an ordinary bank, but inasmuch as the whole credit system of the country depends upon the safety and liquidity of the Banking Department, the "Proportion" has to be much higher than the 12 per cent or so deemed necessary for the cash ratio of a commercial bank. In the return cited, the Reserve amounts to £61,985,151 and the Outside Liabilities to £108,114,162. Thus the Proportion reaches the substantial figure of 57·3 per cent, and in general it may be said that when the Proportion falls below 30 per cent, the authorities of the Bank feel on their guard to see if steps ought not to be taken to rectify the position.

Detailed consideration of the operations of the Banking Department must be deferrred to a subsequent article, but in order to give some meaning to these figures, one or two daily transactions in the life of the country may be cited by way of illustration. Take first the lamentable case of Mr. Smith paying £1,000 in income tax. Theoretically he may pay in bank-notes. In that case the Treasury pays the notes into

its account at the Bank, and the result is that Public Deposits increase by £1,000 on one side of the Bank return, while the Bank of England adds the notes to the Banking Department's Reserve, increasing it by £1,000 on the other side of the return. Another consequence is that the Notes in circulation, as shown in the Issue Department's return are reduced by £1,000. Mr. Smith, however, will almost certainly pay by cheque, that is he will order his bank to pay the £1,000 and debit his account. The way the bank pays the money over is to have its own balance at the Bank of England debited £1,000. Thus Public Deposits gain £1,000 at the expense of Banker's Deposits.

If, to take a happier example, Mr. Smith receives a War Loan dividend warrant for £1,000 and pays it into his account at his bank, the reverse process takes place. Bankers' Deposits gain £1,000, and Public Deposits lose £1,000.

Suppose money is so tight that a bill-broker has to borrow £100,000 from the Bank of England to pay off loans raised from various banks. His act of borrowing the money raises Discounts and Advances by £100,000, while the operation of repaying the various banks adds the money automatically to their balances at the Bank of England with the result that Bankers' Deposits are increased by £100,000.

Now all these transactions are beyond the direct control of the Bank of England, for even in the last example the Bank never refuses to make loans to the market, though it charges penal terms. It often happens, however, that the Bank of England wishes to operate on its own account. Thus it may find its Proportion is too low, and to rectify this it must either raise its Reserve or reduce its Outside Liabilities. To achieve the first of these two objects it can only employ indirect means, which are too complex to be discussed here, but it can achieve the second by a single operation. This consists of selling, say, £100,000 of its holdings of Consols or War Loan or Treasury bills—in short, of any of its securities. Now the act of selling them successfully implies that it has found a buyer who has duly paid for the bills or stock, and the buyer will pay by means of a cheque on his bank. The proceeds of this cheque are collected by the Bank of England by means of debiting that bank's balance in the Banking Department £100,000. Thus not only are Government or other securities reduced by £100,000, but Bankers' Deposits as well; and as Bankers'

Deposits are part of the Banking Department's outside liabilities, the Bank's object has been attained.

Incidentally the supply of cash in the hands of the joint-stock banks has been reduced, but the consequences of this must be left for another occasion.

Notes of the Month

The Money Market.—Last month included the turn of the half-year, when on one day, namely, June 30th, there was the usual shortage of funds, as the banks called large sums off the market. To meet this shortage, bill-brokers and others had to borrow heavily from the Bank of England, which is always prepared to lend for a period of not less than a week and at a rate of $\frac{1}{2}$ per cent above Bank rate. It followed that as the shortage of money only lasted for a single day, and as borrowings from the Bank began a week before the end of the month while the Bank was not finally repaid until July 8th, that for over a fortnight (with the exception of June 30th) the market was over-supplied with funds. It was thus very difficult to gauge the real situation until the end of this period. It was then apparent that there was not too much money about, and consequently discount rates hardened from $2\frac{1}{4}$ per cent, which was the rate current before borrowings from the Bank began, to $2\frac{3}{8}$ per cent. A shortage of bills drove the rate down a few days later to $2\frac{5}{16}$ per cent, but subsequently the rate returned to $2\frac{7}{16}$ per cent, owing to the absence of buying by the clearing banks and lack of demand from the Continent.

During the whole of the past month the French have continued to withdraw money from London to meet their needs at home, and while the low level of money rates in New York and Berlin has diverted some funds from those centres to London, these have mostly gone into the gilt-edged market rather than the discount market. It seems likely, therefore, that the money market will not have more than sufficient funds at its disposal, and that the period during which discount rates stood at $\frac{7}{8}$ or even 1 per cent below Bank rate has now reached its end. It would not be surprising if a Bank rate of 3 per cent, and a discount rate of about $2\frac{3}{8}$ per cent on three months' bills lasted for an indefinite period, and in many ways the establishment of stable conditions of this kind would be advantageous.

Foreign Exchanges.—Until practically the end of the month the French continued to draw heavily on their foreign balances, and as a result the franc exchange remained consistently at or below the gold export point, so that the French continued both to buy the Cape gold in the market and to take gold from the Bank of England. Latterly, Switzerland has also taken gold from London. Early in July a London refiner raised his charges from $\frac{7}{8}$d. to $1\frac{1}{2}$d. per ounce gross, and for reasons described in the July REVIEW, this lowered the gold export point from Frs. 123·78 to Frs. 123·65, while at this lower rate, French buyers could afford to bid as much as 85s. $1\frac{1}{2}$d. per ounce for the fine Cape gold available in the market. French demands on London also exceeded the amount of gold with which the refiners can deal each day, and so as all the demands could not be satisfied in gold, the exchange was forced down to Frs. 123·59 or 6 centimes below the gold export point. The drain of gold to France has already amounted to over twenty million pounds this year. Fortunately, the French have lately taken gold from New York as well as from London, and so the pressure on London is to that extent relieved. Apart from the French and Swiss rates, foreign exchange movements were mainly in favour of sterling, this being probably due to the unremunerative interest rates current in foreign centres, and the consequent diversion of funds to London. In early July, dollars, marks, and Dutch florins all depreciated in relation to sterling. Pesetas were as usual irregular, and South American currencies weak. Silver and the Far Eastern exchanges improved on balance.

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The Stock Exchange.—Once more markets have had several adverse factors against which to contend, and it is not surprising that investors have concentrated mainly upon stocks whose security is unimpeachable. The gilt-edged market displayed considerable strength at the end of June, partly owing to the re-investment of money paid out in dividends and partly owing to American purchases inspired by the low level of money rates in New York. The success of a number of well-secured new issues of debentures that have appeared lately on a flat basis of about $5\frac{1}{4}$ per cent shows that there is a fair amount of money awaiting employment in safe channels, the £5,000,000 London Electric Railway issue of 5 per cent, 1985–95 debenture

stock at £97½ per cent being perhaps the most prominent example. On the other hand the weakness of the Reparations Loan and the temporary failure of the new Austrian Loan show that investors are exercising considerable discrimination. Home rails, with the exception of Undergrounds, have been weak under the influence of poor traffic returns and dividend reductions, while foreign rails were irregular. In the Industrials market internationals sagged in sympathy with the trend of Wall Street prices, while the market as a whole suffered two definite shocks, firstly, from the news that the Royal Mail Steamship Company was being called upon to fulfil its guarantee of the White Star preference dividends, and secondly, from the decision of Cables & Wireless, Limited, to pay no dividend on their ordinary shares. In the more speculative markets, rubber and tin mining shares weakened in sympathy with the further fall in the prices of these commodities and disappointment with restriction, but South African mining shares, including those of Rhodesian Copper Companies, displayed some strength. The oil market responded to the satisfactory Mexican and Canadian Eagles report.

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Overseas Trade.—The returns for the first half of 1930, summarised in the following table, are most disappointing. Comparing the first six months of 1929 and 1930, total imports have fallen by 10·4 per cent, retained imports by 9·5 per cent, and raw material imports by 20·5 per cent. On the other side of the account, exports of British goods have fallen by 15·0 per cent, and those of British manufactured goods alone by 16·0 per cent.

Description.	Jan.-June, 1929.	Jan.-June, 1930.	Increase (+) or Decrease (-)
	£ mill.	£ mill.	£ mill.
Total Imports	604·7	541·7	−63·0
Retained Imports	544·1	492·4	−51·7
Raw Material Imports	179·3	142·5	−36·8
Total Exports, British Goods ..	358·7	304·9	−53·8
Coal Exports	22·4	24·0	+ 1·6
British Manufactured Goods, Exports	284·1	238·6	−45·5
Re-Exports	60·6	49·3	−11·3
Total Exports	419·3	354·2	−65·1
Visible Trade Balance	−185·4	−187·5	− 2·1

In interpreting these percentage changes, account must be taken of the contemporaneous fall in prices. Wholesale prices,

relating mainly to foodstuffs and raw materials but including a certain number of finished products, have fallen by 11·0 per cent. Prices of raw materials alone have fallen to a greater extent, possibly by as much as 16 or 18 per cent, while those of finished goods have fallen by much less—possibly only by 5 or 6 per cent. Thus total imports are greater in volume than they were in the first half of 1929, but our imports of raw materials have declined in volume, while there has been a marked shrinkage in our exports of finished goods.

Home Reports

The Industrial Situation

The end of the trade depression is not yet in sight, and in many respects the situation is worse than it was a month ago. Unemployment is practically up to the level of 2,000,000, and it now seems likely that that figure will be exceeded. What in some ways is an even more serious phase of the depression, is the general loss of confidence now apparent in business circles. It cannot be emphasised too often that an attitude of "defeatism" is quite the wrong spirit in which to face the present emergency, and while to a large extent responsibility for this must be laid upon the Government for adding to the burden of taxation at a time when industry needed all the encouragement it could get, it must be added that the restoration of courage and initiative is a task mainly to be performed by the business world itself.

The main point to bear in mind is that the depression is of world-wide dimensions, and so circumstances affecting this country alone cannot be held responsible for it. Again there is some, though by no means conclusive evidence, that when trade revives Great Britain will emerge from the depression with her production costs more attuned to those of other countries than has been the case in recent years, and that, for this reason, she will be in a better position to secure her fair share of world trade. Meanwhile, in the commercial sphere due weight must be given not only to lost trade and the severity of unemployment, but also to the present volume of production, trade and employment which even to-day remains of substantial dimensions. In the financial sphere it must be remembered that even though

gold has been lost to France, steps have been taken to neutralise these losses, so that the credit fund of the country remains undiminished. Thus, while the situation is bad, it does not wholly justify the hopeless frame of mind into which many people have allowed themselves to drift.

Agriculture

England and Wales.—According to an official report, corn crops made satisfactory progress during June. Early potatoes were on the small side, but the main crop was promising. Turnips and swedes were damaged by fly. Hay-making started earlier than usual, and the crop was above average. Pastures provided abundant keep. Live stock benefited from favourable weather, and milk yields were about normal.

Scotland.—Most of the hay crop has been secured in good order with a fair yield, and vegetation generally is looking very well after the copious rains of mid-July. In the markets live stock, particularly high grade cattle, have met with an improved demand. New potatoes are in fair request.

Coal

Trade generally remains depressed. Production is as a rule in excess of current demand, so that stocks are heavy and prices weak.

Cardiff.—There is little movement in the general position, but the demand for sized coals is on an increasing scale.

Newport.—Demand, both inland and export, for Monmouthshire coals has fallen away.

Swansea.—The situation remains unsatisfactory, particularly in regard to steam coals, prices for which remain at a low level. In the anthracite market, the enquiry for the higher grade coals is good, but low grade qualities are only moving off slowly.

Hull.—New business is very difficult to secure and despite a great deal of short time working, there are plentiful stocks of all descriptions of coal available, with the result that prices are weak.

Newcastle-upon-Tyne.—The coal market remains barely steady. There is little fresh enquiry from abroad, and most of the collieries are working part-time, with only small prospects of improvement.

Sheffield.—The absence of any big business in the shipping section leaves large tonnages to be marketed inland. Stocks are consequently heavy and competition for orders keen. Industrial demands are poor, and business in household coal is extremely slow, in spite of recent reductions in prices.

Glasgow.—The pits in the Lothians were closed from July 12th to 21st and those in Lanarkshire and Fife from July 18th to 28th, so that the market was under holiday influences during practically the whole of the month. Conditions have been no better since production was resumed. Home demand is at a very low point and export business very slow. Collieries find it difficult to dispose of their outputs of large coal.

East of Scotland.—In Fifeshire, steam coal for export is moving off fairly well, but both there and in the Lothians, navigation coal is in poor demand. Washed fuels continue to show an improvement, singles and pearls being in request at slightly higher prices.

Iron and Steel

Trade remains inactive. The north-east coast has benefited from contracts for cast-iron segments required for the construction of the Piccadilly Tube extension. The International Steel Cartel have lately freed from control the prices of steel bars, plates and hoops, and continental prices at once dropped by about 10s. a ton.

Birmingham.—Buyers are restricting themselves to immediate requirements, and the recent reduction in the price of pig iron has had little effect on demand. The steel trade is very dull and a declining tendency has latterly become evident in certain of the finished iron and steel trades, which previously had been relatively active.

Sheffield.—There is no improvement to report in any branch of the steel trade during the past month. The bulk steel trade is in an extremely quiet state, and although certain special

steels are doing fairly well, the total amount of business is below even what it was a few months ago.

Swansea.—All classes of steel scrap continue to be sold at exceptionally low prices. Tinplates are unchanged with works fairly well employed, but the galvanized sheet industry remains in a very unsatisfactory position.

Wolverhampton.—The situation shows no improvement, and stocks tend to accumulate.

Glasgow.—Before the commencement of the July holidays conditions were nothing short of deplorable, and it was understood when operations ceased that few if any of the works would be reopened before Monday, August 4th. A number of blast furnaces in Scotland were, in fact, blown out in view of the restricted demand and the unremunerative prices obtainable, and it is possible that some of them will never be relit.

Engineering

Locomotive builders remain active, but other branches report a decline in the number of new orders coming to hand.

Birmingham.—All branches of the industry are quiet, and short time is being worked in the motor trades.

Coventry.—The motor car trade remains dull. Manufacturers are turning their attention to models for next season's production, and this should have its effect in the autumn upon the machine tool industry, which, meanwhile, is suffering from lack of orders. The electrical industry is in a better position than many other sections, owing to work arising from the introduction of the grid system and unification of voltages.

Luton.—Conditions in the commercial motor trade are somewhat better. Hydraulic engineers report that there is still plenty of work in connection with the shipbuilding industry. General engineers report that slackness in the motor trade is affecting one side of the industry, but that otherwise they are fairly busy.

Wolverhampton.—Engineering is quiet apart from the electrical side, where reports are fairly satisfactory. Motor

firms complain of a slackness in demand and are proceeding very cautiously in their preparations for next year.

Glasgow.—The Clyde shipyards are very short of work, as apart from liners and small craft few orders have been placed within recent months. The general engineering trades are very quiet, and in the marine branch the outlook is unpromising in view of the depression in the shipbuilding industry.

Edinburgh.—Depressed conditions prevail at the Leith shipbuilding and engineering yards, and while some repair work continues to come in, new contracts are very scarce.

Metal and Hardware Trades

Birmingham.—There is very little change in the position. The volume of orders remains insufficient to maintain operation at full capacity. Overseas trade shows no sign of improvement.

Sheffield.—Most branches of the tool trade are feeling the effects of the world depression. Engineers' small tools, twist drills and hacksaws remain the most active lines. The season for farm and garden tools has been a poor one, and business in plantation tools and files is exceedingly quiet. The seasonal expansion expected in the silver and cutlery trades has so far failed to materialise. Shopkeepers report declining sales and the export market is flat. The cheapness of raw silver has not increased the demand for silver ware.

Swansea.—Producers of non-ferrous metals are experiencing a very difficult time, as a result of the heavy fall in prices. The outlook is most unpromising.

Cotton

Liverpool.—The demand for raw cotton during July has been very restricted, and business shows no recovery from the poor record of the previous month. Sales of outside growths have been relatively better than those of American, while imports of all varieties were on a small scale. The trade situation continues to be extremely unsatisfactory, with Lancashire operating at only about 50 per cent of normal capacity, and with little hope of any improvement while the Indian boycott lasts.

The depression in the textile trade of foreign countries continues, notably in America, where the official returns for June show a substantial falling off in the consumption of cotton. The first official acreage report from the U.S.A. issued on 8th July gave the acreage planted as 45,815,000 acres, representing a reduction of just under 3 per cent below that of last season. The weather and condition reports from the Belt, however, indicate that the new crop is making satisfactory progress, and at the moment the probabilities are that last year's final yield will be reached. Price movements during the period under review have been confined to slight day-to-day fluctuations.

Wool

The labour dispute has now ended, but trade has reacted from its temporary improvement during April and May, and it is to be feared that the dispute has meant that the British industry has just missed obtaining any benefit from this improvement.

Bradford.—Business remains very quiet, for although prices are considered favourable, there is an absence of demand for piece-goods. Spinners are experiencing difficulty in getting particulars against contracts, and there is consequently a good deal of idle machinery.

Huddersfield.—Business is quiet in both the woollen and worsted industries. Raw materials are cheap and the prices of some cloths have reduced, but conditions during the past month have become worse, mainly owing to the unsettled conditions in all markets, both at home and abroad.

Hawick.—A fair number of repeat orders for next winter have been received, especially for the better qualities of cloth, but many looms are idle and it is estimated that production at present is less than half of normal capacity. Trade with America is practically at a standstill, and the further increase in the tariff militates severely against its revival. The demand for knitted woollen goods has also eased off considerably. Spinners and dyers are far from busy.

Other Textiles

Dundee.—Conditions in the jute market remain lifeless. The price of raw jute is easier in consequence of the forecast

of a larger acreage this year. No movement in yarns has occurred, but small orders for cloth have been placed, immediate delivery being an essential condition.

Dunfermline.—The linen trade shows no improvement, most of the orders now coming forward being quite unimportant. In particular, the United States is still holding off, but better results are hoped for from that quarter within the next month or two.

Belfast.—Demand remains restricted, but as production was interrupted by holidays during July, there should be no undue accumulation of stocks. Some American orders for dress linens are expected towards the end of August, and there is a general feeling that the effects of the new tariff have been offset by recent declines in prices.

Clothing

Leeds.—As is usual at this season, the clothing trade is not so busy as it has been during the past few months.

Leicester.—The hosiery trade remains depressed. There is rather a better outlook in the underwear trade, but business all round is on the quiet side.

Luton.—The ladies' hat trade is inactive following the conclusion of the summer sales. Autumn trade is slow in starting.

Leather and Boots

Leicester.—The boot and shoe output has been maintained fairly well, but manufacturers' turnover has been affected by the state of trade, as people are requiring a cheaper grade of footwear.

Northampton.—Boot and shoe manufacturers are now preparing for the autumn and winter trade. The leather market is irregular. English hides are firm, while imported hides are easy.

Shipping

Cardiff.—Shipowners are passing through a trying time, but an improvement is noted in freights from the River Plate, Black Sea, Danube and Gulf Ports.

Newport.—In some directions there has been a slight improvement in the demand for tonnage, but in general the market is in a highly unsatisfactory state, and merchants have little difficulty in getting the tonnage they require at extremely low rates. There are 21 vessels laid up in the port as compared with 17 a month ago.

Hull.—Tonnage is plentiful, and as orders are scarce, rates continue to rule at low levels.

Liverpool.—There has been little or no change in outward freight levels, but in the River Plate grain section prompt tonnage was in somewhat short supply and rates improved to 14s. to 15s. per ton, against 11s. a month ago.

Newcastle-upon-Tyne.—Chartering is extremely quiet, and in spite of all efforts owners fail to obtain any improvement in rates which are quite unremunerative.

Glasgow.—The market for coal tonnage from ports in Scotland was very quiet during July owing to scarcity of orders, and low rates were current in all sections, boats being in plentiful supply.

Edinburgh.—About 25 vessels were on loading turn at the Forth coaling ports at the end of July. Other branches of shipping are quiet.

Foodstuffs

Liverpool.—The bacon market has experienced a declining tendency owing to the heavy arrival of the Continental cures, but hams were firm with a good demand. Butter and cheese were a steady but quiet market, and lard continued in fairly good demand. In the canned goods section, meats were in poor request at unchanging prices, while fruits were in good demand at recent prices.

Fishing

Lowestoft and East of England.—A feature of the fisheries of last month was the exceptionally heavy catches, especially of cod, brought by trawlers from Iceland and Bear Island, the new Arctic fishing ground. A close season for herring curing, observed by the principal curers in Scotland, came to an end at

the middle of the month. Large quantities of herrings were landed at Lerwick and mainland ports, but owing to poor quality a big proportion sold at a low price for curing purposes. In consequence, the fishermen have not been as successful as last year. Prospects on the Continent for herrings of later cure are said to be favourable.

West of England.—At Brixham, landings for June, 1930, were 1,516 cwts., against 1,948 cwts. for the same month last year. This shrinkage in landings was mainly due to weather conditions, and prices showed a downward tendency.

Scotland.—Mixed reports continue to be received from the East Coast fishing centres, but results on the whole are regarded as satisfactory.

Other Industries

Timber.—The Hull trade during the past month was up to the average, good quantities going into consumption from the cargoes arriving from Russia and the Baltic. Floorings are a good market and several large railway orders have recently been placed. Russian prices have stabilised at the new level, and this makes it difficult for Swedish and Finnish shippers to compete at present.

Chemicals.—Luton reports trade to be very satisfactory, in spite of general conditions obtaining elsewhere.

China Clay.—The turnover of the West of England china clay firms during May was about 12,000 tons in excess of the April figures, but nearly 23,000 tons below those of the same month of 1929. For the first time the total tonnage dealt with has fallen below the corresponding level for last year.

Pottery.—Business remains very quiet, and no improvement has yet taken place.

Paper making and printing.—Holiday influences have added to the depression in the Edinburgh paper-making industry. The export branch in particular has been very quiet, notably with Australia, owing to present financial conditions there. The printing trade has kept up fairly well, but the outlook for the autumn publishing season is stated to be none too good.

Dominion Reports

Australia

From the National Bank of Australasia Limited

Business remains depressed and unemployment severe. Agricultural and pastoral prospects are generally satisfactory. The 1930-31 wool clip is estimated at 2,728,000 bales. The June tariff revision includes 114 increases. Many overseas firms are opening in Australia, and this development makes over-production more likely. The new taxation proposals include a custom "primage" duty of 2½ per cent, a sales tax of 2½ per cent, increases in income tax of from 10 to 15 per cent of the present rates, and the revision of letter postage from 1½d. to 2d. Reasonable support was given to the new Commonwealth Loan.

Canada

From the Imperial Bank of Canada

General business progress has lately been disappointing. Wheat prices have lately reacted to new low levels, and this has affected production and trade, and also stock market sentiment. Building and construction activity are below the level of a year ago, and so is iron and steel production, but the output of pulp and paper is well maintained. Tourist traffic, which is steadily developing, is helping to maintain the general volume of business.

India

The Bombay raw cotton market is depressed as a result of world trade conditions and Indian political troubles. Enquiries for Manchester goods remain at a very low level, and the Indian mills are also adversely affected by the political situation. Calcutta reports that greater interest was shown in the old jute crop at the end of June. Business in the new crop was limited. The new season's tea sales have opened, but demand was not too good. Rangoon reports that demand for rice was poor during June, with shipments to India restricted by the political troubles. Other branches of trade were similarly affected.

Irish Free State

The long spell of dry weather experienced during June broke just at the right moment. The hay crop was gathered under dry conditions, while crops and pastures have since benefited from the recent good rains.

Foreign Reports

France

From Lloyds & National Provincial Foreign Bank Limited

The average daily output of the French coal mines amounted to 184,864 tons in May last, as against 182,406 tons in April and 184,380 tons in May, 1929. Later reports show that the demand for industrial fuel is well maintained, mainly owing to the continuance of activity in the iron and steel industries.

Production of pig iron amounted to 899,000 tons in May, as compared with 854,000 tons in April and 890,000 tons in May, 1929. Production of steel came to 853,000 tons, the corresponding figures for April, 1930, and May, 1929, being 787,000 tons and 823,000 tons, respectively. In the middle of July, the International Steel Cartel decided to abandon price control over bars, plates and hoops. This has left French and other continental prices in an unsettled condition.

Some improvement is noticeable on the stock exchange. The general level of prices is higher, and French Rentes are firm.

Bordeaux.—Mildew and other diseases have broken out in the vineyards as a result of the long spell of unfavourable weather. It is feared that the quantity and quality of the vintage this year will be affected and prices have already risen. The resin market remains weak, and prices have declined. Fresh orders are scarce and there is little prospect of any early improvement.

Le Havre.—During the month ended July 17th, coffee prices dropped by about Frs. 19 per 50 kilos for Santos good quality, the decline being chiefly attributed to cheaper offerings by Brazilian markets. Cotton prices declined by about Frs. 36 per 50 kilos for middling quality since 10th June. This was ascribed to excellent weather reports, combined with trade depression.

Lille.—The textile market remains quiet. A further reduction in raw cotton prices and the influence of the opening of the holiday season caused a slight increase in purchases, these being chiefly for replenishing stock.

Flax buyers are standing aloof, in spite of favourable quotations put forward by dealers who are keen on realising part of their holdings. Prices of Russian flax of Ralli grade have again been reduced. The local flax harvest has begun under poor prospects, as many plantations have suffered from hail storms. Hemp prices are slightly firmer, owing to purchases from Italian sources, but the jute market remains dull in spite of lower quotations.

Roubaix.—Business has fallen away slightly during the last few weeks owing to weakening of prices, but the general opinion is that the worst is over and that there will not be any serious fall in raw material prices. The undertone of the market is much more confident. Considering everything, the combers, spinners and manufacturers are astonishingly well occupied and if trade becomes really good, there will be a serious shortage of labour. Some combers will not take any wool for combing until September/October. Spinners too are busy, and the results shown are not unfavourable. In manufacturing, there is very little margin between cost price and selling price, and many mill owners are content if they can cover expenses. There are, however, signs of improvement.

Marseilles.—Towards the middle of June, olive oil prices, especially for commercial qualities, were firmer. Buyers are still hesitating and as stocks are at present very low, it is probable that the recent increase in prices will be maintained. The groundnuts market has remained dull, with crushers buying only for immediate needs. Copra prices fluctuated early in July, but are now steadier.

Belgium

From Lloyds & National Provincial Foreign Bank Limited

Brussels.—In the iron and steel industry, prices have fallen appreciably, and this accounted in part for the International Steel Cartel's decision to decontrol the prices of bars, hoops and plates. Belgian quotations are not yet fully adjusted to the new situation arising from this decision. In the coal industry,

the prices for industrial classes continue to fall, and stocks are still increasing in spite of the reduced output. The situation is a little better in the domestic coal trade, and prices remain unchanged. No improvement has taken place in the glass industry. Business on the stock exchange remains at a minimum, and prices are weak.

Antwerp.—No real improvement has yet taken place in business conditions. The rubber, copal, coffee and wool markets remain dull. The stock exchange is lifeless, with weaker prices.

Germany

From the Bank of British West Africa Limited

The surplus of exports over imports for June was R.M. 97 millions as against R.M. 266 millions in May. For the first time on record German exports for the first half of the year exceeded those of Great Britain. Instead of the seasonal improvement which might reasonably have been expected on the labour market the number of unemployed continues to increase. Business failures totalled 1,448 for June, as against 1,727 in May. During 1929, the liabilities of 7,110 bankrupt estates wound up totalled R.M. 452·6 millions, upon which an average dividend of 23·2 per cent was paid, so that the total loss to the creditors was R.M. 347·5 millions. The Steel Trust reports a considerable reduction in all branches of production during the past three months, and states that the orders in hand on 30th June represented only 51·9 per cent of the average monthly figure for outstanding orders during 1928–9. The motor industry returns current production as one per cent below last year's level for cars, 32 per cent lower for tractors and 31 per cent lower for motor cycles. Internal goods traffic is about 15 per cent lower than in 1929 measured by the number of railway wagons loaded, whilst traffic on the inland waterways is at present almost at a standstill in consequence of the low level of the water. On the Stock Exchange the reaction to the dissolution of the Reichstag was not very pronounced, as for months past the Bourse had been under the depressing influence of internal politics.

Holland

Though internal business so far has not suffered unduly from the general depression, prospects are not definitely

favourable. Prices for farm produce, with the exception of live-stock and garden produce, are barely remunerative, while the industrial outlook is rendered obscure by recent tariff increases abroad. The new American tariff in particular has stopped the exportation of Dutch woollen goods to that country, and a fairly large mill has lately had to discharge a number of hands. Again prices of colonial products, such as sugar, rubber, tea and tin remain very low in conformity with the world situation, and shipping, too, is very depressed. These unfavourable features in the outlook have had their effect upon stock exchange prices which, in some instances, are appreciably lower than they were six months ago. Money remains easy, mainly owing to lack of demand. Recent gold losses, however, and the withdrawal of funds occasioned by the issue of the Reparation Loan, may cause more stringent conditions to develop shortly.

Norway

Recent whaling company reports and dividends are satisfactory, and the outlook for the 1930-31 season, which begins in a few weeks' time, is also promising. The pit wood market is adversely affected by the depression of the English coal industry. Planed wood prices remain firm, as, although demand is restricted, shippers are already sold ahead up to August and September.

Sweden

Swedish industries are displaying considerable resistance against the world trade depression, and the summer trade recession has been less pronounced than usual. Timber prices, however, have weakened, as English buyers are holding back on account of the Russian position. The pulp market is also dull.

Denmark

The outlook for the harvest is extremely promising, while this year's hay crop also surpassed expectations. Butter prices have improved, but against this must be set a sharp fall in bacon prices. Unemployment has increased, and commodity prices continue to fall, but the stock exchange has lately become a little more active.

Switzerland

From Lloyds & National Provincial Foreign Bank Limited

No improvement in the general situation has occurred during the past month. June exports were the lowest recorded since January, 1927, while imports are the lowest registered this year, and lower than in any month of 1929, except February, when trade was restricted by frost. The decline in Swiss export trade is due primarily to the general world depression, but is aggravated by the new American tariff upon watches and other Swiss products. The depression in Switzerland, however, is by no means general. The woollen and linen industries are a bright spot, and foodstuffs, especially cheese and chocolate, show an improvement, while the building and chemical trades are fairly well occupied.

Spain

The fall of the peseta to the lowest level touched since 1898 has caused widespread alarm, and on the advice of the Treasury the Government has decided to prepare the successive stages towards the stabilisation of the peseta. A majority of the bankers and financiers recently invited to study the problem in all its aspects favours stabilisation, but opinions differ, both as to the level at which this should be effected and the preliminary steps necessary to that end. Pending a report of the findings of the bankers, the Government has announced the unification in one budget of all charges on the country's revenues. The supplementary railway account has therefore been suppressed, and the expenses of new line construction will in future be met from current revenue. The Government has also decided that all foreign money operations shall be centralised in the Bank of Spain, assisted by a committee of bankers elected from the three banking zones, and all banks operating in Spain have been ordered to submit a sworn declaration of outstanding exchange operations, credits granted abroad, and foreign balances in Spain.

Morocco

From the Bank of British West Africa, Limited

Business during June was depressed and stagnant, and although live-stock is in better condition, and the olive and

maize crops are promising, there is no doubt that the country has been badly hit by such factors as the general world depression, the new taxation entailed by the cost of combating the locust peril, and the prolonged drought that came at a critical time of year. Moreover, the locust peril has not yet been entirely subdued. As regards foreign trade, sales of Manchester cottons improved slightly following the recent price reductions, but Japanese goods are still 20 per cent cheaper.

The United States

Viewing the situation as a whole, there are few signs yet of an emergence from the present depression. Commodity prices have continued to fall, and a general feeling of pessimism is now apparent. It is true that the first half of 1930 did not compare too badly with the experience of four or five years ago, but recent earning statements issued by companies are disappointing, and no return of confidence is expected until commodity prices stabilise. Meanwhile, although retail trade has been helped by the fine weather, general business is slow. Steel production is down to 56 per cent of capacity, automobile manufacture is being curtailed, and the New England textile industry remains depressed. Cotton crop reports are on the whole favourable, and current estimates of other crops as a rule forecast yields greater than those actually obtained last year. Hence, an early improvement in prices does not appear likely.

S. America

From the Bank of London & South America Limited

Buenos Aires.—The arrival of a spell of cold weather has stimulated maize shipments, and freights have risen in sympathy, while trade generally is better. Foreign exchange rates, which in June were adversely affected by the falling off in export trade, have consequently improved. The second official estimate of the maize yield is 6,328,000 tons.

Montevideo.—The wool market is inactive, and prices nominal. There is a good demand for cattle at slightly lower prices.

Bogota.—Adequate rains have fallen in the uplands and crops there are making good progress. Rain is needed in the lowlands. The business undertone is a little more hopeful.

Statistics

Banking

1. BANK OF ENGLAND

Date.	Issue Department.		Banking Department.				
	Gold.	Notes in circulation.	Reserve and Proportion.		Bankers' Deposits.	Govt. Securities.	Discounts & Advances
1929.	£ mn.	£ mn.	£ mn.	Per cent.	£ mn.	£ mn.	£ mn.
July 24th ..	*149·5*	*367·3*	*43·4*	*39·7*	*61·0*	*50·8*	*9·4*
1930.							
June 25th ..	156·9	358·5	59·2	48·7	63·8	48·9	15·9
July 2nd ..	156·3	363·6	53·6	40·0	84·3	49·1	29·9
July 9th ..	155·7	363·8	52·8	45·8	69·5	54·1	6·3
July 16th ..	155·5	365·1	51·2	44·3	69·6	55·7	6·2
July 23rd ..	154·1	364·1	50·9	44·8	67·3	51·4	7·1

2. TEN CLEARING BANKS

Date.	De-posits.	Accept-ances.	Cash.*	Call Money.	Bills.	Invest-ments.	Ad-vances.
1929.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.
June	*1,807·9*	*195·6*	*255·7*	*152·5*	*218·3*	*258·7*	*993·2*
1930.							
January	1,805·0	164·4	248·3	144·2	245·2	247·9	985·4
February	1,751·1	159·9	234·7	129·6	220·4	244·0	988·3
March	1,719·3	159·3	235·6	134·7	183·6	240·4	990·8
April	1,749·7	159·0	244·8	135·8	209·6	240·4	984·3
May	1,779·8	144·1	239·6	139·3	248·0	246·6	972·4
June	1,829·4	130·0	251·2	145·7	273·3	248·0	977·1

* Includes balances with other banks and cheques in course of collection.

3. LLOYDS BANK. RATIO OF CURRENT ACCOUNT CREDIT BALANCES TO TOTAL DEPOSITS

Year.	Ratio.	Month.	Ratio. 1929	Ratio. 1930
			%	%
1902	58·2	January	46·8	45·1
1907	51·5	February	45·9	44·2
1914	49·9	March	45·2	44·5
1919	60·7	April	44·9	45·1
1920	56·7	May	44·1	44·0
1921	50·7	June	44·5	44·4
1924	51·0	July	45·4	
1925	49·6	August	45·3	
1926	48·6	September	45·3	
1927	47·4	October	45·6	
1928	46·4	November	44·7	
1929	45·2	December	45·3	

Money, Exchanges and Public Finance

1. LONDON AND NEW YORK MONEY RATES

Date.	London.			New York.		
	Bank Rate.	3 Months' discount Rate.	Day-to-day Loans.	Re-discount Rate.	90 Days' eligible Bank acceptances.	Call Money.
1929.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
July 24th ..	*5½*	*5$\frac{7}{16}$*	*4½–5½*	*5*	*5¼**	*7**
1930.						
June 25th ..	3	2¼—$\frac{5}{16}$	1½—2	2½	2	2½
July 2nd ..	3	2$\frac{7}{32}$—¼	1½—2	2½	2	2½
July 9th ..	3	2⅜	2—3	2½	2	2½
July 16th ..	3	2$\frac{11}{32}$—⅜	1½—2	2½	2	2½
July 23rd ..	3	2$\frac{7}{16}$	1½—2	2½	2	2

* July 25th.

2. FOREIGN EXCHANGES

London on	Par.	1929. July 24.	1930.				
			June 25.	July 2.	July 9.	July 16.	July 23.
New York ..	$4·866	4·86$\frac{5}{16}$	4·86	4·85$\frac{7}{32}$	4·86$\frac{3}{32}$	4·86$\frac{7}{32}$	4·86$\frac{11}{32}$
Montreal ..	$4·866	4·87	4·86⅛	4·86⅜	4·86⅜	4·86¼	4·85⅞
Paris ..	Fr. 124·21	123·81½	123·77	123·65½	123·67½	123·60	123·67
Berlin ..	Mk. 20·43	20·35½	20·38½	20·38⅞	20·39½	20·37⅝	20·37¼
Amsterdam ..	Fl. 12·11	12·09½	12·09$\frac{3}{16}$	12·09	12·10	12·08¾	12·09¼
Brussels ..	Bel. 35	34·91	34·82¼	34·81¾	34·83	34·81½	34·80
Milan ..	Li. 92·46	92·77⅛	92·76	92·80	92·90½	92·88	92·89
Berne ..	Fr. 25·22½	25·22¼	25·07⅜	25·07	25·03½	25·03	25·03¼
Stockholm ..	Kr. 18·16	18·10¾	18·09	18·09¾	18·10¼	18·09¼	18·09¼
Madrid ..	Ptas. 25·22½	33·29	42·25½	41·72½	41·40	41·65	42·42½
Vienna ..	Sch. 34·58½	34·45⅛	34·43	34·43½	34·45	34·44½	34·43¼
Prague ..	Kr. 164·25	164	163¾	163$\frac{13}{16}$	164	164$\frac{1}{16}$	164⅛
Buenos Aires	47·62d.	47$\frac{7}{32}$	40$\frac{21}{32}$	40$\frac{5}{32}$	40⅝	40¾	40$\frac{11}{16}$
Rio de Janeiro	5·89d.	5⅞	5$\frac{13}{32}$	5$\frac{15}{32}$	5⅜	5$\frac{7}{16}$	5⅜
Valparaiso ..	Pes. 40	39·57	39·94	39·95	39·96	39·96	39·97
Bombay ..	18d.	17$\frac{13}{16}$	17$\frac{13}{16}$	17$\frac{27}{32}$	17$\frac{27}{32}$	17$\frac{13}{16}$	17$\frac{27}{32}$
Hong Kong ..	—d.	24	15$\frac{7}{16}$	15¼	15$\frac{13}{32}$	15½	15$\frac{13}{32}$
Shanghai ..	—d.	28$\frac{11}{32}$	17⅞	18¼	18⅛	18$\frac{5}{16}$	18⅜

3. PUBLIC REVENUE AND EXPENDITURE

Revenue.	To July 19, 1930.	To July 20, 1929.	Expenditure.	To July 19, 1930.	To July 20, 1929.
	£ mn.	£ mn.		£ mn.	£ mn.
Income Tax ..	31·5	31·0	Nat. Deb. Service ..	118·7	125·2
Sur-Tax	11·1	9·4	Local Taxation a/c payments	1·0	2·3
Estate Duties ..	27·1	26·7	Northern Ireland payments	1·4	1·2
Stamps	4·5	6·3	Other Cons. Fund Services	—	—
Customs	35·6	36·3	Supply Services	121·6	104·2
Excise	37·7	38·8	Ordinary Expenditure ..	242·8	232·9
Tax Revenue ..	148·6	150·0	Sinking Fund	11·2	12·1
Non-Tax Revenue ..	24·5	21·9	Self-Balancing Expenditure	21·3	20·5
Ordinary Revenue	173·1	171·9			
Self-Balancing Revenue	21·3	20·5			

Trade

1. PRODUCTION

Date.	Coal.*	Pig-iron.	Steel.
1929.	Tons mn.	Tons thou.	Tons thou.
June	*5·0*	*658*	*831*
1930.			
January	5·3	650	771
February	5·5	597	776
March	5·4	666	826
April	4·5	620	696
May	4·9	615	692
June	4·1	563	600

* Average weekly figures for month.

2. IMPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1929.	£ mn.	£ mn.	£ mn.	£ mn.
June	*39·6*	*24·5*	*26·4*	*91·5*
1930.				
January	42·9	30·1	28·0	101·9
February	37·3	24·0	25·8	88·2
March	40·0	24·1	28·1	93·4
April	36·7	20·7	25·6	83·9
May	39·6	23·1	27·7	91·0
June	37·6	20·4	24·5	83·4

3. EXPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1929.	£ mn.	£ mn.	£ mn.	£ mn.
June	*3·9*	*6·1*	*38·4*	*49·9*
1930.				
January	4·6	6·9	44·7	58·3
February	3·7	5·7	41·2	51·9
March	4·0	5·9	42·5	53·9
April	3·6	5·4	36·7	46·9
May	3·8	5·8	39·8	51·0
June	3·2	4·7	33·8	42·8

4. UNEMPLOYMENT

Date.	1925.	1926.	1927.	1928.	1929.	1930.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
End of—						
January ..	11·5	11·0	12·0	10·7	12·2	12·6
February ..	11·3	10·4	10·9	10·4	12·2	13·1
March ..	11·1	9·8	9·8	9·5	10·1	14·0
April ..	10·9	9·1	9·4	9·5	9·9	14·6
May ..	10·9	14·3	8·7	9·8	9·9	15·3
June ..	11·9	14·6	8·8	10·7	9·8	15·8
July ..	11·2	14·4	9·2	11·6	9·9	
August ..	12·1	14·0	9·3	11·6	10·1	
September ..	12·0	13·7	9·3	11·4	10·0	
October ..	11·4	13·6	9·5	11·8	10·4	
November ..	11·0	13·5	9·9	12·1	11·0	
December ..	10·4	11·9	9·8	11·2	11·1	

Percentage of Insured Workers.

Prices

1. WHOLESALE PRICES (average for month)

Date.	Index Number (1928–9 average = 100).				
	U.K.	U.S.A.	France.	Italy.	Germany.
1929.					
June	*97·0*	*99·7*	*99·2*	*98·4*	*97·5*
1930.					
January	93·6	96·1	91·5	92·9	95·4
February	91·9	95·5	91·5	91·1	93·2
March	89·2	93·5	90·1	89·5	91·0
April	88·6	93·3	89·9	88·0	91·3
May	86·8	91·3	88·4	86·1	90·6
June	84·9	89·0	87·4	84·6	89·8
June, 4th week	84·1	88·3	86·8	83·6	89·5
July, 1st week	84·2	88·1	—	83·0	89·4
„ 2nd week	84·2	87·0	—	82·4	90·0
„ 3rd week	83·5	85·9	—	82·2	90·4
„ 4th week	83·8	85·8	—	81·8	90·5

Sources: U.K., "Financial Times"; U.S.A., Irving Fisher; France, Statistique Générale; Italy, Italian Chamber of Commerce; Germany, Statistische, Reichsamt.

2. RETAIL PRICES (end of month)

Date.	Food.	Rent (including rates).	Clothing.	Fuel and Light.	Other items included.	All items included.
1929.						
June	*49*	*53*	*115—120*	*70*	*80*	*61*
1930						
January ..	54	52	115	75	80	64
February ..	40	52	115	75	80	61
March.. ..	43	52	110—115	75	80	57
April	40	53	110—115	70	80	55
May	38	53	110—115	70	80	54
June	41	53	110—115	70	75	55

The figures represent the percentage increase above July, 1914, which is equal to 100.

3. COMMODITY PRICES (average for month)

Date.	Wheat, No. 1 N. Manitoba.	Cotton, American Middling.	Wool, 64's tops avge.	Pig Iron, Cleveland No. 3.	Tin, Standard Cash.	Rubber, Plantation Sheet.
1929.	Per qr. s. d.	Per lb. d.	Per lb. d.	Per ton. s. d.	Per ton. £	Per lb. d.
June	*47 0*	*10·22*	*40⅛*	*71 10½*	*200¼*	*10¼*
1930.						
January ..	53 4	9·36	29⅛	72 6	175½	7⅜
February ..	49 0	8·51	28½	72 6	173⅞	7¼
March.. ..	43 10½	8·24	26¼	70 6	165	7⅜
April	44 7¾	8·65	27⅛	67 6	162¾	7⅜
May	44 1½	8·55	28⅜	67 6	144 13/16	6¾
June	43 5	7·93	27¾	67 6	136⅜	6¼